



Transmittal Cover Sheet

2517 Sir Barton Way
Lexington, KY 40509
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Detailed, Grouped by Each Transmittal Number

Western Fleming Water District - WTP Improvement Project # 03318 Quest Engineers, Inc
Tel: Fax:

Date: 9/12/2006 Reference Number: 0056

Transmitted To Michael Bufford Division of Filings 211 Sower Blvd. Frankfort, Kentucky 40602	Transmitted By Sharon Rowe Quest Engineers, Inc 2517 Sir Barton Way Lexington, KY 40509 Tel: 859-223-3755 Fax: 859-219-0745
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SEP 12 2006
PUBLIC SERVICE
COMMISSION

Acknowledgement Required

Package Transmitted For	Delivered Via	Tracking Number
As Requested		

Item #	Qty	Item	Reference	Description	Notes	Status
001	1.00			Western Fleming Report of Audit		Sent
002	1.00			Substantial Completion Letter		Sent
003	1.00			As Built Drawings		Sent

Cc: Company Name	Contact Name	Copies	Notes
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Remarks
If you need anything else, please let me know.

Sharon Rowe
Signature

9/12/06
Signed Date



Ernie Fletcher
Governor

Mark David Goss
Chairman

Lajuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 584-3940
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psc.ky.gov

Teresa J. Hill
Vice Chairman

Christopher L. Lilly
Commissioner
Department of Public Protection

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August 24, 2006

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Mr. Jerry Neal
Chairman
Western Fleming County Water District
4428 Hilltop Road
Ewing, Kentucky 41039

PUBLIC SERVICE
COMMISSION

RE: Case No. 2004-00373
Status Request

Dear Mr. Neal:

The Commission entered the enclosed Final Order in this case on November 19, 2004. It was ordered that "Western Fleming shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein."

Also "Western Fleming shall furnish documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission."

To date, this information has not been received. This letter is to request a status on the information requested in said Order. We would appreciate receiving a response to this letter within 15 days. Please mail this response to Michael F. Burford, Director of Filings Division, Public Service Commission, 211 Sower Blvd., Post Office Box 615, Frankfort, Kentucky 40602.

Sincerely,

Michael F. Burford
Director
Division of Filings

Enclosure
/mb



September 11, 2006

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SEP 12 2006

PUBLIC SERVICE
COMMISSION

Mr. Michael Buford, Director
Division of Filings
Public Service Commission
211 Sower Blvd.
Frankfort KY 40602

Quest Engineers, Inc.

Lexington:
2517 Sir Barton Way
Lexington, KY 40509
859-223-3755
859-223-3150 (Fax)

Louisville:
One Riverfront Plaza
401 West Main Street
Suite 500
Louisville, KY 40202
502-584-4118
502-589-3009 (Fax)

Cincinnati:
1251 Kemper Meadow Drive
Suite 600
Cincinnati, OH 45240
513-851-9774
513-851-9207 (Fax)

Re: Western Fleming Water Treatment Plant Improvements
Ewing, Kentucky (03318)
Case # 2004-00373
Status Request

Dear Mr. Buford:

The above referenced project was "Finally Complete" in accordance with the Contract Documents as of September 30, 2005. The project was "Substantially Complete" as of July 31, 2005.

Please call if you have questions.

Sincerely,

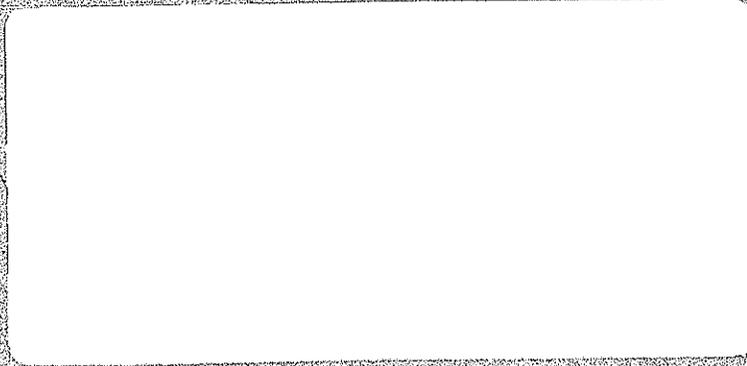
Robert H. Williams, P.E.
Contract Administration Manager

cc: Western Fleming County Water District Board

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SEP 12 2006

PUBLIC SERVICE
COMMISSION



ROBERT E. MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANT

115 S. MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST.
P. O. BOX 449
MOREHEAD, KY 40351
(606) 784-4451

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PUBLIC SERVICE
COMMISSION

**WESTERN FLEMING COUNTY
WATER DISTRICT**

REPORT OF AUDIT

DECEMBER 31, 2005

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ROBERT E. MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners of the
Western Fleming County Water District
Ewing, Kentucky

I have audited the accompanying financial statements of the business-type activities and each major fund of Western Fleming County Water District as of and for the years ended December 31, 2005 and 2004, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Western Fleming County Water District. My responsibility is to express an opinion on these financial statements based on my audit.

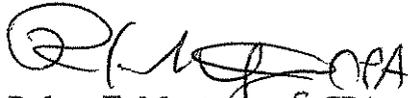
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Western Fleming County Water District as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 29, 2006, on my consideration of Western Fleming County Water District internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The district has not presented the management's discussion and analysis that Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Fleming County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Western Fleming County Water District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Robert E. Montgomery, CPA
August 29, 2006

WESTERN FLEMING COUNTY WATER DISTRICT
BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

ASSETS	<u>2005</u>	<u>2004</u>
<u>CURRENT ASSETS</u>		
Cash (Note 2)	\$ 724,540	\$ 1,062,631
Accounts Receivable (net of allowance for doubtful accounts of \$992 and \$2,133 at December 31, 2005 and 2004.)	61,672	56,224
Prepaid Insurance	8,871	7,375
<u>Total Current Assets</u>	<u>795,083</u>	<u>1,126,230</u>
<u>RESTRICTED ASSETS</u>		
Cash (Note 3)	337,241	401,180
<u>Total Restricted Assets</u>	<u>337,241</u>	<u>401,180</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	75,090	20,074
Transmission and Distribution Plant	7,464,847	6,146,265
Building, Office Furniture and Equipment	78,368	72,158
<u>Total Property, Plant and Equipment</u>	<u>7,618,305</u>	<u>6,238,497</u>
Less: Accumulated depreciation	<u>(2,454,857)</u>	<u>(2,338,599)</u>
<u>Net Property, Plant and Equipment</u>	<u>5,163,448</u>	<u>3,899,898</u>
<u>OTHER ASSETS</u>		
Bond Issuance Costs	14,000	14,000
Less: Amortization	<u>(1,866)</u>	<u>(933)</u>
	<u>12,134</u>	<u>13,067</u>
 TOTAL ASSETS	 <u><u>\$ 6,307,906</u></u>	 <u><u>\$ 5,440,375</u></u>

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

LIABILITIES, CONTRIBUTED CAPITAL AND NET ASSETS

	2005	2004
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 24,621	\$ 14,131
Accrued Taxes	4,499	4,271
Accrued Interest Payable	34,509	29,359
Current Portion of Long-term Debt	81,000	50,400
<u>Total Current Liabilities</u>	144,629	98,161
<u>LONG-TERM DEBT</u>		
Bonds Payable (Note 5)	2,008,105	2,116,581
<u>Total Liabilities</u>	2,152,734	2,214,742
<u>CONTRIBUTED CAPITAL AND NET ASSETS</u>		
Customer Tap-ons	389,595	371,350
Contributed Capital - Other	3,453,917	2,616,375
Net Assets	311,660	237,908
Total Contributed Capital and Net Assets	4,155,172	3,225,633
	\$ 6,307,906	\$ 5,440,375

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING INCOME		
Water Operating Revenues	\$ 747,716	\$ 682,065
 OPERATING EXPENSES		
Chemicals	91,565	82,359
Contract Service - Accounting	2,200	2,550
Contract Service - Other	27,348	35,320
Depreciation	116,259	113,649
Insurance	34,550	33,796
Materials and Supplies	16,078	25,579
Office Supplies	11,937	9,553
Telephone & Utilities	3,895	4,598
Miscellaneous	3,862	1,677
Payroll Taxes	11,526	11,393
Purchased Power	72,521	59,853
Purchased Water	45,249	
Amortization	933	933
Salaries - Commissioners	12,000	13,200
Salaries - Employees	140,592	133,532
	<u>590,515</u>	<u>527,992</u>
OPERATING EXPENSES		
NET OPERATING INCOME (LOSS)	157,201	154,073
 NONOPERATING INCOME (EXPENSES)		
Interest Income	24,908	20,729
Interest Expense	(108,357)	(92,955)
	<u>73,752</u>	<u>81,847</u>
NET INCOME (LOSS)		
NET ASSETS - BEGINNING OF YEAR	<u>237,908</u>	<u>156,061</u>
NET ASSETS - END OF YEAR	<u>\$ 311,660</u>	<u>\$ 237,908</u>

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

CASH FLOW FROM OPERATING ACTIVITIES	<u>2005</u>	<u>2004</u>
Net Income/(Loss)	\$ 157,201	\$ 154,073
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	117,192	114,582
Decrease (Increase) in Current Assets		
Accounts Receivable	(5,448)	(23,278)
Other Receivables & Prepaid Insurance	(1,496)	2,051
Increase (Decrease) in Current Liabilities		
Accounts Payable	10,490	(3,708)
Accrued Expenses	5,378	3,336
CASH PROVIDED BY OPERATIONS	<u>283,317</u>	<u>247,056</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	24,908	20,729
CASH PROVIDED BY INVESTING	<u>24,908</u>	<u>20,729</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash (Used) or provided by:		
Investment in Utility Plant	(1,324,793)	(308,274)
(Debt Reduction)/Proceeds	(77,876)	255,812
Investment in Office Equipment	-	(4,445)
Interest Expense on Debt	(108,357)	(92,955)
Decrease/(Increase) in Restricted Cash	63,939	(156,436)
Increase in Contributed Capital	837,542	42,700
Customer Contributions	18,245	16,525
Bond Issuance Costs	-	(14,000)
Investment in Land	(55,016)	-
CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(646,316)</u>	<u>(261,073)</u>
PRIOR PERIOD ADJUSTMENT TO RETAINED EARNINGS		
NET INCREASE (DECREASE) IN CASH	<u>(338,091)</u>	<u>6,712</u>
CASH AT BEGINNING OF PERIOD	1,062,631	1,055,919
CASH AT END OF PERIOD	<u>\$ 724,540</u>	<u>\$1,062,631</u>

Supplemental Disclosures:

Interest paid was \$ 108,357 and \$ 92,955 in 2005 and 2004 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Western Fleming County Water District have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

(a) Property, Plant and Equipment

Property, plant and equipment purchased are recorded at cost. Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. The estimates of useful lives used in computing depreciation are as follows:

	ESTIMATED LIFE (YEARS)
Building & Improvements	33
Water Plant	33
Water Distribution Systems	40-50
Meters	20

(b) Investments

All investments are carried at cost and are required to be collateralized by direct obligations of the United States, FDIC insured, or invested in direct obligations of the United States. Investments consist of certificates of deposits.

(c) Income Tax Status

Income of the water district is exempt from tax under Internal Revenue Code Section 115. Accordingly, the financial statements include no provisions for income taxes.

(d) Customer Contribution

Following a common industry practice, all tap-on and meter installation fees have been capitalized and recorded as contributed capital

(e) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

(f) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. Fair value approximates carrying amounts.

2. **CASH**

Cash for purposes of the cash flows statements does not include restricted cash. Following is a summary of cash at December 31, 2005 and 2004:

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>
Interest Bearing Checking Accounts		
And certificate of deposit	\$ 1,002,597	\$ 1,409,534
Non-Interest Bearing Checking Accounts	<u>59,184</u>	<u>54,277</u>
	\$ 1,061,781	\$ 1,463,811
Less: Restricted Cash for Construction		
And Bond Reserves	<u>337,241</u>	<u>401,180</u>
	<u>\$ 724,540</u>	<u>\$ 1,062,631</u>

3. **RESTRICTED ASSETS**

The restricted assets in the accompanying financial statements are restricted as to use by bond ordinances (Note 5). A schedule of restricted assets at December 31, 2005 follows:

<u>DESCRIPTION</u>	<u>RESTRICTED CASH</u>	
	<u>2005</u>	<u>2004</u>
With Paying Agents	\$ 59,184	\$ 54,277
Bond Reserves	82,987	82,465
Construction Account	32,785	90,545
Bond Sinking Fund	95,989	113,093
Depreciation Reserves	<u>66,296</u>	<u>60,800</u>
Total	<u>\$ 337,241</u>	<u>\$ 401,180</u>

4. **NET WORKING CAPITAL**

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 795,083	\$ 1,126,230
Current Liabilities	<u>144,629</u>	<u>98,161</u>
Net Working Capital	<u>\$ 650,454</u>	<u>\$ 1,028,069</u>

5. **LONG-TERM DEBT**

The following is a summary of revenue bonds of the district at December 31, 2005. Substantially all assets and revenues are pledged as collateral for the following debt:

	<u>Rate</u>	<u>Original Issue</u>	<u>2005</u>	<u>2004</u>
1969 Serial	5-5 1/2%	\$ 445,000	\$ 83,981	\$ 108,981
1980 FHA	5 %	560,000	331,000	347,000
1988 FHA	5 %	341,000	267,000	274,000
1997 FHA	4 1/2%	675,000	618,500	628,500
2003 FHA	4 1/2%	500,000	489,500	495,000
2004 KY Rural Water	4.021%	314,000	<u>299,124</u>	<u>314,000</u>
			<u>\$ 2,089,105</u>	<u>\$ 2,166,981</u>
Less Current Maturities			<u>(81,000)</u>	<u>(50,400)</u>
			<u>\$ 2,008,105</u>	<u>\$ 2,116,581</u>

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

Bond principal is due on January 1. Interest is due on January 1 and July 1.

Long-term debt will mature as follows:

	<u>Principal</u>
2006	81,000
2007	76,500
2008	76,981
2009	51,000
2010-2019	849,000
2020-2028	620,810
2029-2037	<u>333,814</u>
Total	<u>\$ 2,089,105</u>

Depreciation fund and bond reserve funds that are required by the 1969 and 1980 bond indentures, are fully funded, and are held as time deposits and certificates of deposit by Farmers Deposit Bank-Ewing Branch at Ewing, Kentucky. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2005, the 1988 depreciation reserve fund had a balance of \$53,967. The 2004 bond indenture requires a bond reserve fund be set-up with the regions bank. This account is set-up and had a balance of \$21,812 as of December 31, 2005.

6. FDIC AND COLLATERALIZED DEPOSITS WITH FINANCIAL INSTITUTIONS

The amount of collateral, bank balance, and the District's carrying balances in all financial institutions as of December 31, 2005 are summarized below.

	<u>Bank Balance</u>	<u>Carrying Balance</u>	<u>Collateral and FDIC Insurance</u>
Community Trust <u>Bank</u>			
Checking and Savings	473,913	473,913	
Certificates of Deposits	<u>587,868</u>	<u>587,868</u>	
TOTAL	<u>\$ 1,061,781</u>	<u>\$ 1,061,781</u>	<u>\$ 1,550,714</u>

All securities pledged as collateral are unregistered and held by the safekeeping department of another bank.

WESTERN FLEMING COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2005

<u>Program Title</u>	<u>Federal CFDA#</u>	<u>Federal Expenditures</u>
Kentucky Infrastructure Authority Pass Through Program KIA Fund B 20/20 Grant	66.458	<u>814,642</u>
Total		<u><u>\$814,642</u></u>

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Western Fleming County Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – PASS THROUGH PROGRAMS

Western Fleming County Water District received funds passed through the Commonwealth of Kentucky Department of Local Government

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
KIA 2020 grant	66.458	\$814,642

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To The Board of Commissioners of the
Western Fleming County Water District
Ewing, Kentucky

Compliance

I have audited the compliance of the Western Fleming County Water District with the types of compliance requirements described in the *U.S. Office Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for year ended December 31, 2005. Western Fleming County Water District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Western Fleming County Water District's management. My responsibility is to express an opinion on the Western Fleming County Water District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Western Fleming County Water District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide legal determination of the Western Fleming County Water District's compliance with those requirements.

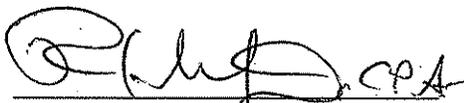
In my opinion, the Western Fleming County Water District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Western Fleming County Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Western Fleming County Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, the board of commissioners, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Montgomery, CPA
August 29, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners of the
Western Fleming County Water District
Ewing, Kentucky

I have audited the financial statements of the business-type activities and each major fund of Western Fleming County Water District as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued my report thereon dated August 29, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

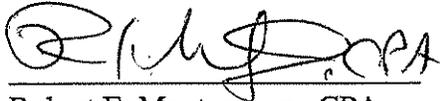
In planning and performing my audit, I considered the Western Fleming County Water District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Fleming County Water District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The

results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, the Public Service Commission of Kentucky, Fleming County Fiscal Court and Rural Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "R. E. Montgomery, CPA". The signature is written in a cursive style and is positioned above a horizontal line.

Robert E. Montgomery, CPA

August 29, 2006

**WESTERN FLEMING COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2005**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion of the financial statements of the Western Fleming County Water District.
2. No reportable conditions relating to the audit of the financial statements or the major federal award programs reported in the Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
3. No instances of noncompliance material to the financial statements of the Western Fleming County Water District were disclosed during the audit.
4. The auditor's report on compliance for the major federal award programs for the Western Fleming County Water District expresses an unqualified opinion.
5. There are no material audit findings.
6. The programs tested as major programs includes the KIA 20/20 Grant.
7. The threshold used for distinguishing between Type A and B programs was \$300,000
8. The Western Fleming County Water District was determined to be a low risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

NONE

**FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

NONE